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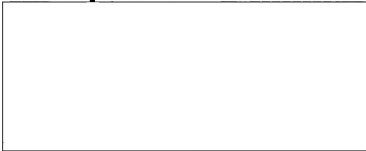
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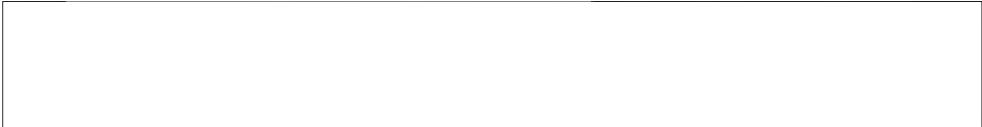
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USSR-LIBYA: Communique on Treaty

The agreement in principle to conclude a treaty of friendship and cooperation reflects the expansion of Soviet-Libyan ties over the past two years, but the communique in which it was announced suggests the treaty will contain no Soviet commitment to Libya's security.

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The versions of the communique published separately by the Libyans and the Soviets on Saturday following Libyan deputy leader Jallud's talks in Moscow last week contained a number of differences. The Soviet text, unlike the Libyan, characterized Jallud's talks with Premier Tikhonov as "frank," and it omitted the expression of "deep satisfaction with the results of this fruitful visit" contained in the Libyan version.

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In the text issued by Tripoli, Moscow condemned US naval and aircraft movements near Libya last month and supported Libya's right to defend the "sanctity of its land, air, and territorial waters." The Soviet version was more general and made no mention of Libya's right to defend its borders.

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Comment: The Libyans' apparent desire to obtain the strongest possible statement of Soviet support from Jallud's visit may explain the unusual decision to announce the treaty before it was signed. Libyan leader Qadhafi's desire for Soviet protection probably has increased because of his recent foreign policy setbacks. He is almost certainly pushing for a treaty that includes specific commitments to Libyan security.

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Qadhafi may be willing to accede to possible requests for expanded and regular Soviet access to Libyan air and naval facilities in return. The communique suggests, however, that Moscow is still unwilling to make a commitment to Libyan security.

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Although this Soviet unwillingness may have prevented concluding the treaty during Jallud's visit, other factors may have been involved. Qadhafi's absence could have been an issue, as the Libyan leader would have insisted on his personal involvement in formal signing ceremonies. Moreover, differences may still exist over economic issues, especially the delayed Libyan payments for Soviet arms, which would require further negotiation before the treaty is signed.

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The announcement of the treaty will not help Moscow's current efforts to improve relations with Egypt, other Arab moderates, and Iraq.

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EC: Currency Crisis Looms

The European Community's Council of Finance Ministers has so far failed to agree on a currency realignment for the European Monetary System at its current meeting in Brussels. []

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West German Finance Minister Stoltenberg, who is President of the Council, announced to the press following the difficult meeting yesterday that foreign exchange fixings and central bank intervention in the EMS currencies would be temporarily suspended today. The Council is to meet early in the day in hopes of resolving the impasse before the summit meeting of the EC heads of government that begins later today. []

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Inflation and a hard-to-finance and growing trade deficit in France have put strong pressure on the franc. During the last three months the Bank of France and other central banks have intervened heavily to keep the exchange rates within the EMS band. []

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Stoltenberg also told the press he was working on a compromise formula. The press reported changes being discussed were a 5- to 6-percent revaluation of the West German mark and a 2- to 3-percent devaluation of the franc. []

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French Finance Minister Delors threatened several times that France would pull out of the EMS if a satisfactory solution could not be reached. He said France will ask for a large new EC loan—perhaps as much as \$6 billion—and suggested that the present 4.5-percent EMS band be widened to 6 or 8 percent. []

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Comment: The suspension of foreign exchange fixings and intervention by the monetary authorities will cause confusion in the financial markets, and the longer it takes the EC to reach an agreement the more uncertainty there will be. Leaving the EMS is a possibility open to Paris only at great economic and political cost. Economically, a large devaluation of the franc would be certain and Paris would lose access to funds from the EC; politically the move would tend to isolate France. []

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President Mitterrand's concurrent reshuffling of the cabinet will influence France's final position. Foreign Trade Minister Jobert has resigned, and, if Prime Minister Mauroy is replaced as speculated by the press, Delors' position and the likelihood of further austerity measures would be enhanced. []

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EC: Summit Meeting

EC leaders meet in Brussels today to discuss—in addition to the currency crisis—growing problems in agricultural trade with the US, East-West relations, and the situation in the Middle East. [redacted]

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Community members have expressed concern that the dispute with the US over subsidized sales of agricultural products is close to developing into a trade war. The heads of government are expecting Commissioners Haferkamp and Dalsager to report on their consultations in Washington last week, which were aimed at avoiding an open confrontation. [redacted]

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EC leaders also are to review Community policy toward the USSR following Denmark's unilateral decision last month to withdraw from EC trade sanctions. In addition, they plan to prepare a statement on the Middle East. [redacted]

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Comment: The EC leaders probably will initiate no new policies at the two-day session, because preparation by West Germany, as Council president, has been inadequate. Nevertheless, the heads of government may agree to bring up the agricultural trade issue at the economic summit in Williamsburg, Virginia. France has been urging other EC members to restrict US agricultural imports, and a negative report by the Commission on its "last-ditch" effort in Washington will be likely to convince EC leaders that such action is necessary. [redacted]

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Danish withdrawal from the EC sanctions can easily be accommodated by other members and probably will not lead to EC legal action against Copenhagen. Denmark's decision, however, may prompt new discussions on the continued effectiveness of the sanctions and weaken Community resolve to continue the measures through the end of the year. EC leaders also are likely to talk about starting discussions with other industrialized countries on rescheduling Poland's debt. [redacted]

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On the Middle East, the Ten probably will issue a statement deploring continuing obstacles to peace, including the lack of progress in the negotiations on Lebanon and the continuing spread of Israeli settlements in occupied territory. [redacted]

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NICARAGUA: Anti-Sandinistas Seek Support

Political leaders of the Nicaraguan Democratic Force, currently on a visit to six European capitals, may gain the organization greater respectability. [redacted]

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The leaders hope to convince European government and party leaders that armed struggle is justified and that the Democratic Force is not dominated by former members of Somoza's National Guard.

[redacted]

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The Democratic Force is publicizing the peace plan it issued in January, which rejects any linkage to the former Somoza regime and outlines changes necessary to restore Nicaraguan democracy. [redacted]

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Democratic Force officials claim that Alfonso Robelo, leader of the anti-Sandinista Democratic Revolutionary Alliance—which is based in Costa Rica—said when he met with them last month that he wants to cooperate. In addition, they claim that the leader of another Alliance faction has abandoned it and joined the Democratic Force. Former Sandinista hero Eden Pastora, who heads a third faction, remains opposed because of the presence of former National Guardsmen in the Democratic Force. [redacted]

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Comment: The greater willingness of Robelo and foreign leaders to meet with Democratic Force officials reflects the success of the shakeup in the political leadership last December, which installed known opponents of former President Somoza. The European visit probably will enhance the organization's prestige, even if it does not result in public endorsements. [redacted]

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The Democratic Force's quest for wider political support—and possible cooperation with the Democratic Alliance—is likely to hinge on overcoming the political liability of its links to former National Guardsmen. The political leadership acknowledges that its military counterparts are former Guard officers, but it claims that they were not close associates of Somoza or guilty of abuses. [redacted]

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EGYPT: Mubarak's Improved Standing

President Mubarak's recent efforts to reduce corruption at home and to assert Egypt's interests abroad appear to have strengthened his popularity. []

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The recent dismissal of two ministers implicated in the corruption trial of the late President Sadat's half brother should increase respect for Mubarak, according to the US Embassy. The firings have helped to restrain opposition charges that Mubarak is not serious about rooting out corruption in high places. []

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The Embassy also reports that Mubarak's highly publicized meetings with other Arab leaders at the Nonaligned Summit have served him well at home by demonstrating that Egypt is achieving rapprochement with moderate Arab states on its own terms. In addition, many Egyptians have applauded the President's rebuttal of the anti-Egyptian statement issued in Algiers by the Palestine National Council. []

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Comment: Mubarak's popularity has fluctuated in the past. A major failure of public services in Cairo, an outbreak of Coptic-Muslim violence, or provocative new Israeli actions in Lebanon or the West Bank could rapidly erode his position. []

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The drop in oil prices has further clouded Egypt's future. The loss of foreign earnings is forcing the government to reduce economic growth targets and may ultimately require risky austerity measures. []

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THAILAND: Elected House Dissolved

Prime Minister Prem dissolved the elected House of Representatives on Saturday and called for national elections on 18 April. The decree cited fears of political conflict and violence in the wake of last week's voting on constitutional amendments. [REDACTED]

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Comment: Prem's action should reduce the chances of a coup, since military equities in forming a new government will continue to be represented by the Senate. The early election date allows the military-supported Senate to predominate once more in forming a new government immediately before its powers lapse. Because no civilian political party appears strong enough to gain a majority of seats in parliament, the Senate probably will play a decisive role in selecting the Prime Minister. Prem remains the likely choice for the post as a figure acceptable both to military leaders and to civilians. [REDACTED]

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SYRIA-USSR: Nuclear Cooperation

Sources of the US Embassy in Damascus say Syria recently signed a protocol with the USSR calling for Soviet studies to choose a site for a nuclear power plant in Syria. The accord culminates nearly a decade of discussions between the two countries. The USSR also has offered similar facilities to India and Turkey. []

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Comment: The plant would be one of the USSR's largest economic aid projects in Syria and would make the Soviets responsible for most of Syria's power capacity. If Moscow is awarded the actual construction contract, the plant probably will require up to \$1 billion in Soviet financing for the equipment. The project is in the preliminary study stage, however, and both sides are moving slowly for both political and economic reasons. []

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SOUTH AFRICA: Reduced Corn Production

Drought this year has cut corn output in South Africa by 60 percent to 4.7 million tons, according to Pretoria's estimates. South Africa is the world's fifth-largest corn exporter, and all of its neighbors except Zimbabwe depend on it for corn supplies. []

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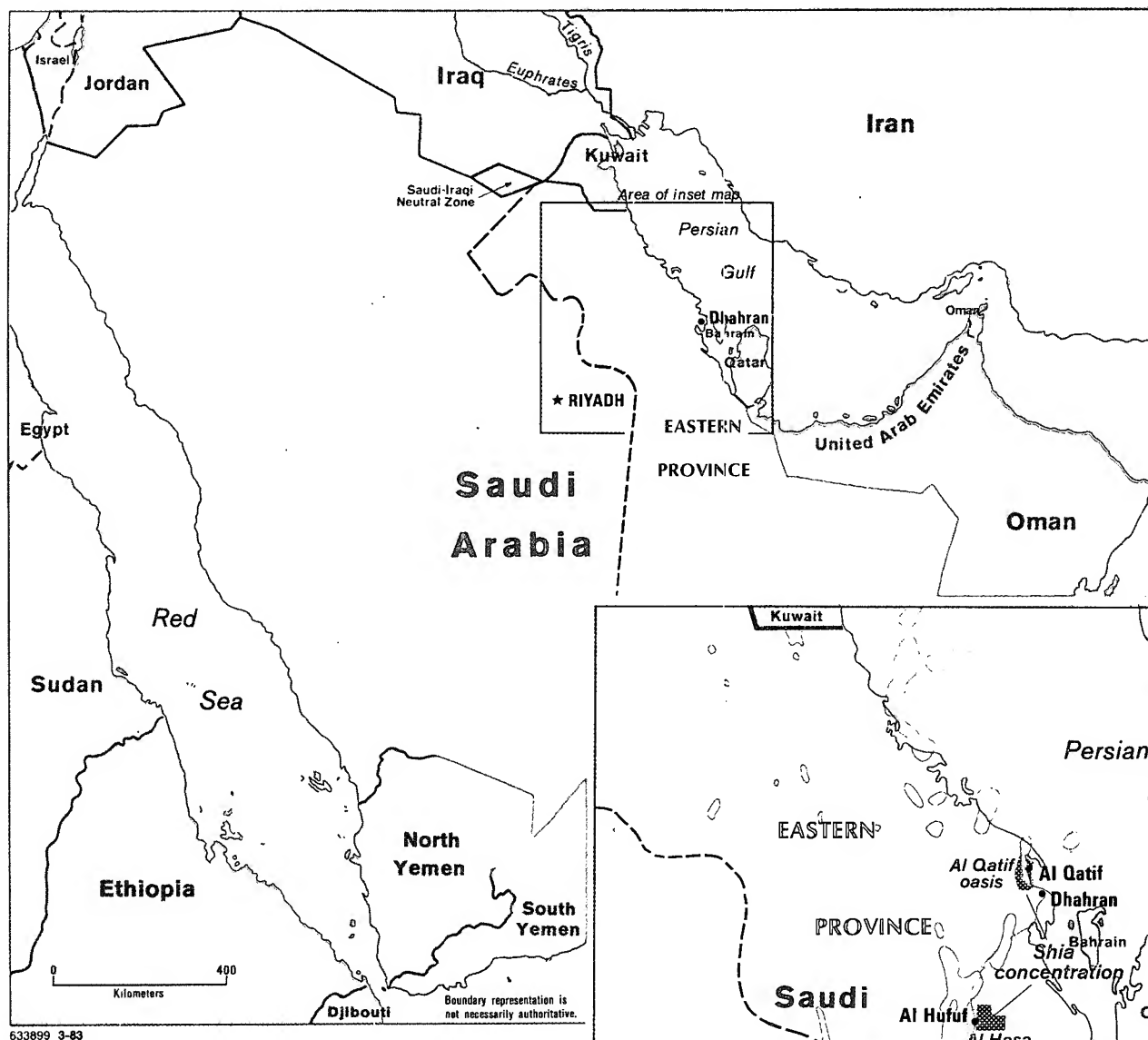
Comment: The drop in production will halt exports and force Pretoria, after drawing down stocks, to import as much as 1 million tons of foodgrains. In addition, the neighboring countries also are suffering from drought and almost certainly will turn to the US and other Western countries for increased food purchases and aid. []

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